DOCUMENT RESUME

ED 218 777 EA 014 805

TITLE Semi-Annual Report to Congress: April 1, 1980-September 30, 1980.
INSTITUTION Office of Inspector General (ED), Washington, DC.
PUB DATE 80
NOTE 52p.; Page 34 will not reproduce due to illegibility of original document. For related documents, see EA 014 806-808.

EDRS PRICE MF01/PC03 Plus Postage.
DESCRIPTORS Administrative Organization; *Crime Prevention; Elementary Secondary Education; Federal Government; *Federal Programs; *Inspection; *Investigations; Postsecondary Education; Program Evaluation; Quality Control; Tables (Data)
IDENTIFIERS *Auditors; Department of Education; Fraud; *Office of Inspector General

ABSTRACT

EStablished in 1980 to help improve management effectiveness, the U.S. Department of Education's Office of Inspector General (OIG) is responsible for audit, investigative, fraud detection and prevention, and some security services for the Department. In this document--its first semi-annual report--the OIG first describes its organizational structure, staff selection, budget and resources, and planning and training activities. The report then presents data on OIG audits conducted and resolved, the amounts of money saved or claimed, and the problem of the backlog of audits existing when the office was formed. OIG's investigative activities are reviewed next, detailing the cases under investigation, the educational programs involved, and the results of the investigations. The report also notes OIG's reviews of proposed legislation and regulations. Appendices provide organizational charts and further data on audits completed and complaints received. (Author/RW)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED218777

Office of Inspector General Semi-Annual Report to Congress

April 1, 1980-September 30, 1980

U.S. DEPARTMENT OF EDUCATION
NATIONAL INSTITUTE OF EDUCATION
EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)

X This document has been reproduced as received from the person or organization originating it.
Minor changes have been made to improve reproduction quality.

• Points of view or opinions stated in this document do not necessarily represent official NIE position or policy.

EA 014 605

U.S. DEPARTMENT OF EDUCATION

Semi-Annual Report

April 1-September 30, 1980

Office of Inspector General

U.S. Department of Education

TABLE OF CONTENTS

	Page Number
LETTER OF TRANSMITTAL	i
EXECUTIVE SUMMARY	iii
SECTION I -- ORGANIZATION AND MANAGEMENT	
A. Background	1
B. Organization	3
C. Resources	5
D. Training	9
SECTION II -- AUDIT ACTIVITIES	
A. Introduction	11
B. Audit Statistics	12
C. Audit Results	13
D. Audit Resolution	17
E. Significant Problems	21
F. Other Activities	23
SECTION III -- INVESTIGATION ACTIVITIES	
A. Introduction	25
B. Investigation Statistics	25
C. Investigation Results	29
SECTION IV -- OTHER MATTERS	
A. Review of Legislation and Regulations	31
B. No Unresolved Significant Recommendations Disclosed in Prior Reports	32
C. No Instances Where Requested Information Was Refused	32
APPENDICES:	
1. Abbreviations	33
2. Organization Charts	34
3. ED Audits Issued	36
4. Listing of Audits Before the Education Appeals Board (9/30/80)	39
5. Hotline Complaints	40

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

OFFICE OF INSPECTOR GENERAL

OCT 31 1980

Honorable Shirley M. Hufstedler
Secretary of Education
Washington, D. C. 20202

Dear Madam Secretary:

In accordance with the requirements of Section 5 of the Inspector General Act of 1978 (P.L. 95-452), I am submitting the first semiannual report of the Department's Office of Inspector General. The report provides a summary of our activities during the period April 1, 1980 through September 30, 1980.

The Act requires that you submit this report, along with any comments of your own, to appropriate Congressional Committees and Subcommittees within 30 days.

We look forward to working with you and other Departmental officials and with the Congress in an effort to improve efficiency and economy in the Department's programs and activities and to prevent and detect fraud and abuse.

Sincerely yours,

James B. Thomas, Jr.
Inspector General

EXECUTIVE SUMMARY

This is the first semiannual report by the Office of Inspector General (OIG) of the U. S. Department of Education (ED). Both ED and the OIG came into being on May 4, 1980.

Efforts during this reporting period were focused primarily on development of an effective organization, careful selection of key staff, and initiation of planning activities to provide guidance and direction for implementation of audit and investigation activities. When OIG was established, we started operations with about 40 vacancies at the managerial and supervisory level.

In order to minimize the disruption of audits and investigations and to permit an orderly assumption by ED of its OIG workload, a Service Agreement for Inspector General Activities was executed between the Department of Health and Human Services (HHS) and ED. Under the terms of this Service Agreement, most of the auditors and investigators who were transferred to ED were immediately detailed back to HHS to work primarily on ED-OIG matters. That portion of the Service Agreement covering ED investigation staff was terminated on July 14 and staff detailed to that activity returned. The audit staff was detailed to HHS through September 30, at which time the Service Agreement expired.

Significant progress has been made in our efforts to establish the new office and initiate operations. Accomplishments include:

- Development of the OIG organizational structure, which has been approved by ED, and preparation of related position descriptions;
- Selection of 18 well qualified individuals for some of our key positions, and progress in the selection of staff to fill remaining positions;
- Development and issuance of interim policy guidance and operating procedures for audit, investigation, and security functions;
- Development of the first annual audit workplan aimed at potentially vulnerable program and operational areas; and
- Development of a training plan to enhance audit and investigative skills.

Highlights of audit accomplishments are:

- Completion or processing of 1,718 audits of ED programs and operations;
- Resolution and closure of 1,247 audit reports during the period. Of these, 471 have resulted or will result in monetary recoveries or savings totalling $13 million.

A listing of each audit report completed by HHS-OIG during the period is included as Appendix 3. Results of some of the more important audits of ED activities and programs during this period include:

- $949,000 in improper claims related to the vocational rehabilitation program in one State. A refund to the Federal government was recommended;
- Lack of internal controls that provided opportunities for theft, fraud or other losses related to 50,000 vocational rehabilitation maintenance and transportation checks worth nearly $4 million in one State. Improved controls were recommended;

- o $4.4 million in Elementary and Secondary Education Title I funds used for ineligible projects and for services at schools not eligible for assistance. Return of the funds to the Federal government was recommended; and

- o An estimated $440,000 of $9.4 million in student financial aid administered by one college improperly used and allowability on an additional $1.3 million questioned. Resolution depends on legal proceedings.

Investigation activities resulted in five indictments, one conviction, and one judgment. Our accomplishments include:

- o 16 investigation cases presented to U.S. Attorneys during this period with nine accepted for prosecution or pending a decision;

- o Conviction of a student for providing false information to obtain a $10,000 loan under the Health Education Assistance Program;

- o Indictment of an individual for falsifying applications for student financial aid funds;

- o Judgment of $1.2 million resulting from an investigation of two proprietary schools for misappropriation of student financial aid funds;

- o Indictment of a husband and wife in a case in which the husband understated his income and his wife, who worked in the student financial aid office of an educational institution, approved the award of funds. The wife was also indicted for misrepresenting her income and marital status to obtain financial aid for her own education; and

- o Identification of more than $1.2 million in Federal money improperly spent or awarded and about $1 million saved that was authorized to grantees.

This report contains a discussion of two significant problems affecting the OIG:

- The Department began operations with a significant backlog of unresolved audits over six months old and this backlog has increased; and

- Recent requirements for the conduct of audits will significantly increase the number of non-Federal audits which OIG must review to assure that the work performed complies with standards established by the Comptroller General of the United States. At the current staffing level, it is unlikely that we will be able to assure that the required standards are met.

We will put forth our best efforts to ensure that these problems do not become insurmountable. A more detailed discussion of our concerns is contained in this report on pages 21 and 22.

Because this is the first ED-OIG semiannual report, there are no significant recommendations included in previous reports which are unresolved.

OIG has been able to comment on proposed legislation and regulations early in the review and clearance process. Since establishment of ED, OIG has reviewed and commented on 15 proposed new legislative bills or revisions to existing bills and nine new regulations or revisions to existing regulations.

OIG has received support from top Departmental management and has not been unreasonably refused or denied information or assistance requested.

In the few months of its existence, OIG has made considerable progress toward developing effective audit and investigation functions to carry out its responsibilities with respect to ED programs and operations. Much remains to be done and we look forward to the challenge ahead.

SECTION I

ORGANIZATION AND MANAGEMENT

A. BACKGROUND

The Office of Inspector General (OIG) was established pursuant to the Department of Education (ED) Organization Act (P.L. 96-88). This Act amended the Inspector General Act of 1978 (P.L. 95-452) to provide for an Office of Inspector General in ED. Organizational charts are included as Appendix 2.

The Department of Education was activated on May 4, 1980. A Service Agreement for Inspector General Activities was executed between the Department of Health and Human Services (HHS) and ED to minimize the disruption of audits and investigations and to permit an orderly assumption by ED of its OIG workload. This Service Agreement enabled OIG to effect an orderly transfer of functions and responsibilities.

The Inspector General heads an independent organization which is responsible for audit, investigation, fraud prevention and detection, and designated security services. In directing these activities, the Inspector General emphasizes both the protective and constructive aspects of these services to attain improved management efficiency and effectiveness.

The Inspector General reports directly to the Secretary of ED and has authority to inquire into all program and administrative activities of the Department and the related activities of all parties performing under contracts, grants and other agreements with the Department. These inquiries may be in the nature of audits, surveys, quality reviews, criminal and other investigations as may be necessary. These inquiries are for the purpose of assisting ED management by identifying problems, weaknesses, or deficiencies in procedures, policies, and operations; and by recommending corrective actions when appropriate.

Pursuant to the Inspector General Act of 1978, the Inspector General is responsible for:

- Conducting and supervising audits and investigations of Departmental programs and operations;
- Providing leadership, coordination, and policy recommendations intended to promote economy, efficiency, and effectiveness in administration of ED programs and operations as well as to prevent and detect fraud and abuse;
- Keeping the Secretary and Congress fully and currently informed about problems and deficiencies in ED activities, and the need for and progress of actions to correct such deficiencies; and
- Reviewing existing and proposed legislation and regulations to protect and enhance the integrity and effectiveness of the Department's operations.

B. ORGANIZATION

The OIG structure, approved by ED, consists of the Immediate Office of Inspector General, which includes the Office of Fraud Control headed by a Director, and three major components, each headed by an Assistant Inspector General:

Office of Audit
Office of Investigation
Office of Policy, Planning and Management Services

OIG operations are conducted by staff located at Headquarters and in each of the 10 standard Federal regions. Brief functional descriptions of OIG components follow:

Office of Audit

The Office of Audit (OA) is OIG's largest component and comprises approximately 69% of OIG staff resources. OA plans, conducts, supervises and coordinates audits relating to the organization, programs and activities of the Department through Headquarters and Field staffs. It recommends corrective action concerning problems, abuses and deficiencies and reports on the progress made in implementing corrective action.

Office of Investigation

The Office of Investigation (OI) is OIG's second-largest component and comprises approximately 23% of OIG's staff resources. OI performs, supervises, and coordinates investigations of activities related to the Department's programs

and operations through Headquarters and Field staffs and provides for Secretarial protection, personnel security, and protection of classified documents for the Department. It acts as the principal liaison office with the Department of Justice on all criminal matters uncovered as a result of investigations of the Department's programs and operations.

Office of Policy, Planning and Management Services

The Office of Policy, Planning and Management Services provides overall direction, control and coordination of cross-cutting functions for the OIG and its Regional Offices, including policy development, procedural guidance, planning and administrative and management services. It has major responsibility for the critical functions necessary in setting up the new Office of Inspector General, including the establishment of systems, processes, and practices to promote economy, efficiency, and effectiveness in the organization.

Office of Fraud Control

The Office of Fraud Control, which will be staffed in the near future, monitors and conducts research and special studies required to assess the Department's vulnerability to mismanagement and fraudulent practices. Through the use of these studies, we expect to identify and isolate those areas most vulnerable to fraud and abuse and to make recommendations for management improvements to promote economy and efficiency in the administration of the Department's programs.

This office is also responsible for manning the ED telephone hotline to receive reports of suspected fraud and abuse from ED employees. A summary of hotline complaints is included as Appendix 5.

OIG Regional Offices

Within each of the Regional Offices, OIG operations are headed by a Regional Inspector General for Audit and a Regional Inspector General for Investigation. Regional Inspectors General are responsible for conducting, directing and coordinating audit and investigation activities in the Field. They report directly to their respective Assistant Inspectors General in Headquarters.

C. RESOURCES

Priority attention during this period has been devoted to establishing the OIG organization to carry out our mission. A discussion of staffing, budget, space and equipment showing the status of our efforts follows:

Staffing

On May 4, 1980, 232 employees formerly assigned to the Department of Health, Education and Welfare, hereinafter referred to as the Department of Health and Human Services (HHS), were transferred to OIG. In accordance with the

Determination Order, two Senior Executives were transferred and the remaining staff assigned to OIG was at level GS-14 and below. Consequently, OIG started operations with a substantial void nationwide of about 40 supervisory and management level positions. The staff which transferred to ED was located in 45 separate cities, including regional and branch office locations.

In accordance with the Service Agreement between ED and HHS for the provision of audits and investigations, a number of auditors and investigators were detailed back to HHS to work on OIG matters. In the meantime, a small staff devoted its efforts to initial start-up and operating activities.

That portion of the Service Agreement covering ED investigation staff was terminated on July 14 and 14 employees detailed to HHS returned to OIG. On October 1, OIG assumed full responsibility for audit activities and all remaining details of staff to HHS were terminated.

A considerable amount of effort has been directed toward recruitment and staffing. Individual position descriptions have been prepared and are presently in various stages of the personnel process administered by ED. In addition to 68 vacancies which OIG was authorized to fill in FY 1980, we had 17 resignations during this period. Selections

were made for 40 positions, including 18 supervisory and managerial positions at Headquarters and in the Field. Most of these individuals will report for duty in October and November 1980. Active affirmative action recruitment efforts have been undertaken and some progress is being made. These efforts will continue and all vacancies will be filled as quickly as possible.

The OIG permanent, full-time staff ceiling as of September 30, 1980 is 300. This ceiling has been tentatively allocated by OIG as follows:

Permanent, Full-Time Personnel Ceiling

	Headquarters	Field	Total
Inspector General (Immediate Office and Fraud Control)	7	-	7
Office of Audit	42	164	206
Office of Investigation	17	50	67
Office of Policy, Planning and Management Services	20	-	20
TOTAL	86	214	300

Budget

ED budget submissions for FY 1980 and FY 1981 did not separately identify funding for OIG operations. Determination of the OIG funding and staffing level for FY 1980 was

based on a share of ED's Departmental management budget. For the five months of FY 1980, we received funds based on an annual budget of $10,781,000 and a staffing level of 300 employees. Our FY 1981 tentative budget is $10,967,000 at the same staffing level.

In preparing the OIG budget request for FY 1982, OIG conducted a preliminary analysis of its workload to determine the audit and investigation universe and to set priorities for a number of competing demands.

The Department of Education administers approximately 150 separate and distinct programs through several thousand entities (State agencies, local school districts, colleges, universities, lending institutions, research institutes, vocational centers, profit and non-profit contractors, and individuals) which receive funding in excess of $15 billion annually. In order to promote economy, efficiency and effectiveness of such programs and operations, and to prevent and detect fraud, abuse, and mismanagement, our preliminary analysis indicates the need for a substantial increase in audit and investigation staff. We are continuing to refine workload measurements to better gauge our staffing needs.

Space and Equipment

Additional space and equipment is now and will be needed at Headquarters and in the Field, as new staff is brought on board. In addition to individual offices and work stations,

space is needed to house classified and sensitive documents. We are working with ED management officials to secure the necessary space, furniture and equipment.

D. TRAINING

OIG is placing a high priority on staff training. A highly-skilled, multidisciplinary staff is required to respond to the complexities and problems of setting up a nationwide operation and carrying out audit, investigative, and security functions within the new Department. Most of OIG's existing staff must be trained to perform a broader range of assignments and new staff will require training in ED programs and operations.

OIG has formulated a training plan intended to meet the professional needs of all OIG staff. The plan includes provisions for basic as well as continuing training. The bulk of this instruction is drawn from existing training programs and courses offered outside the Department, but several training proposals now under consideration would rely primarily on ED resources. OIG-OI staff participated in or will attend the basic Criminal Investigator Curriculum, a seven-week program provided by the Federal Law Enforcement Training Center, Glynco, Georgia. Additional training programs to meet the specific needs of individual OIG staff include:

- Program orientation training to familiarize OIG staff with all ED programs;

- Cross-disciplinary training to enhance the working relationship between auditors and investigators by familiarizing each group with the professional standards and operational methods of the other; and

- Computer fraud training which will provide participants with a basic understanding of data processing operations and the auditor's role in auditing such operations.

SECTION II

AUDIT ACTIVITIES

A. INTRODUCTION

Each year ED disburses over $15 billion to a variety of recipients in accordance with legislative requirements, regulations, and program guidelines. Recipients of Federal funds are all subject to audit coverage. Audits of these external entities, along with the internal audits of ED programs and operations, represent a significant workload for the OIG.

The first annual audit workplan aimed at potentially vulnerable program and operational areas was developed. The plan calls for concerted efforts toward identifying needed improvements in three areas:

- Student financial assistance to postsecondary students provided under Title IV of the Higher Education Act of 1965, as amended;
- Assistance to developing institutions under Title III of the Higher Education Act of 1965, as amended; and
- Departmental management of contracts and grants.

Several other reviews have also been included in the workplan for FY 1981. They are:

- Audits of selected State and local education agencies;
- Surveys of automated data processing system vulnerability; and

- o Pilot audits of selected ED programs and recipients which have not been audited in the past. In part, these audits are aimed at developing and updating audit guides to establish audit standards in particular program and subject areas and to provide a better base for determining requirements for adequate audit coverage.

OIG has issued interim audit policy guidance which provides operating procedures for conducting audits.

B. AUDIT STATISTICS

During the period April 1 through September 30, 1980, HHS, in accordance with a Service Agreement with ED, completed or processed 1,718 audit reports on ED programs or operations.

The following profile shows who conducted audits and which audits had findings requiring further action before resolution could be made:

Source of Audits	Reports With Findings		Reports Without Findings		Total Reports	
	Number	Percentage	Number	Percentage	Number	Percentage
HHS-OIG Audit Agency	57	4	32	10	89	5
Other Federal Auditors	9	1	43	14	52	3
Independent Public Accountants	1,264	90	209	66	1,473	86
State and Other non-Federal Auditors	73	5	31	10	104	6
	1,403	100%	315	100%	1,718	100%

The HHS Audit Agency completed 14 audits on ED activities during April; the remaining 75 were completed and issued in accordance with the Service Agreement between ED and HHS. As required by Section 5(a)(6) of the Inspector General Act, a listing of audit reports completed appears in this report as Appendix 3.

Of the 52 audits conducted by other Federal auditors, most were contract closing audits completed by the Defense Contract Audit Agency. Independent Public Accountants provided 1,473 audit reports, or 86% of the total processed. Almost all were audits of the various student financial assistance programs administered by the Office of Postsecondary Education (OPE) and conducted biennially as required by ED regulations. State and other non-Federal auditors completed 104 audits during this period. The majority of these audits were also on the administration of student financial assistance programs at the postsecondary schools.

C. AUDIT RESULTS

During this reporting period, HHS completed and issued 57 audit reports requiring corrective action. Final resolution of discrepancies based upon these audit findings is being carried out by ED program officials. Listed below are examples of some of the more important findings of audits completed:

Vocational Rehabilitation Program (VR)

Audits of administrative practices in several States have shown a need for improvements. In one State, a refund of $949,000 to the Federal government was recommended because of improper claims by the State. The audit showed that the services provided at seven State institutions did not meet Federal requirements because:

- The State did not control the programs provided by the institutions;
- The services or patterns of services provided were not new; and
- The services would have been provided without the cooperative VR program.

Auditors recommended that these requirements be met in the future. ED's Rehabilitation Services Administration agreed with OIG's findings and recommendations.

An audit at another State department of social services showed numerous deficiencies in procedures for authorizing, preparing and delivering maintenance and transportation checks to clients. In FY 1979, this social service agency issued about 50,000 checks totalling nearly $4 million to meet incidental needs of clients while they were participating in rehabilitation programs. Virtually the entire process was under the administrative control of VR counselors without adequate safeguards to insure the integrity of disbursed funds. Some of the deficiencies noted were:

- Counselors authorized, and also delivered, check payments to clients;

- Almost ten percent of the checks issued (5,000 totalling about $350,000) were returned for cancellation because checks had been prepared without proper validation of client's continuing need for assistance;

- Undelivered and returned checks were not properly safeguarded and controlled. Counselors generally stored them in unsecured desks and file cabinets and sometimes held them for inordinate periods. As a result, some of the checks had been stolen and cashed with forged signatures; and

- The agency had not reconciled its VR bank records in over a year.

These conditions represent a serious breach of internal control standards and provide opportunities for theft, fraud and other losses. OIG recommended a number of specific internal controls to assure proper issuance and control of VR checks administered by this State agency.

Elementary and Secondary Education - Title I

Reviews of approximately $264 million of program expenditures in two States led to recommendations that $4.4 million be returned to the Federal government. The States had used Title I funds for ineligible projects and for services at schools not eligible for Title I assistance. Deficiencies noted in our reviews included:

- Library services which benefited the entire student body rather than the target population;
- Ineligible health services;
- Services of educational specialists which were also provided to children in non-Title I schools; and
- Funds were used for general education activities rather than special Title I programs.

In addition to recommending recovery of funds, we recommended that the State agencies involved improve their procedures for approving and monitoring Title I projects.

Vocational Education

An audit of vocational education activities in one State indicated that five local programs had inappropriate costs of $142,800 and identified the following problems:

- Funds were not allocated consistent with established priorities and Federal regulations;
- The State plan was prepared without local participation;
- Local projects were funded without assurance of adequate non-Federal matching funds; and
- The State failed to use a required ten percent reserve of funds exclusively for handicapped individuals.

ED program officials concurred in these findings and will seek recovery of the $142,800.

Student Financial Assistance

An audit of a college's administration of student financial assistance programs disclosed that the school had:

- Made awards to ineligible students;
- Not documented its determinations of student financial need; and
- Not identified disbursements to specific students.

As a result, an estimated $440,000 of $9.4 million administered by the college had been improperly used. Further, the allowability of an additional $1.3 million was questioned. Resolution of these findings is dependent upon the outcome of legal proceedings between ED and the college.

Reports prepared by non-Federal auditors also identified deficient practices at other postsecondary institutions. Common problems were high default rates, insufficient matching funds by institutions, insufficient documentation to support awards, discrepancies in reported data, missing student affidavits and incomplete or missing promissory notes. OIG is planning to review the effectiveness of the ED student financial assistance program review process.

D. AUDIT RESOLUTION

During the last six months, 1,718 audit reports were issued, of which 1,403 required or will require action on the part of program managers before resolution can be completed. During this same six month period 1,247 audits were resolved. For

the audits requiring action, the following table presents receipts, closures, and comparative balances by principal action office as of April 1 and September 30, 1980:

Office	Status of Audits Unresolved as of April 1, 1980			Audits Received During 6 Month Period	Audits Closed During 6 Month Period	Status of Audits Unresolved as of September 30, 1980		
	Total	Over 6 Months Old				Total	Over 6 Months Old	
		No.	%				No.	%
OPE	1,221	358	29	1,299	1,141	1,379	472	34
OM-DGP	126	76	60	86	74	138	94	68
OESE	12	10	83	6	12	6	1	17
OSERS	11	8	73	3	5	9	5	55
OVAE	9	7	78	5	2	12	7	58
OERI	3	1	33	1	1	3	2	67
NIE	27	10	37	3	12	18	11	61
Totals	1,409	470	33	1,403	1,247	1,565	592	38

As of April 1, 1980, there were 470 unresolved audit reports over six months old, 12 of which had deficiencies over $250,000 and were being tracked by use of a quarterly reporting procedure. As of September 30, 1980, the total increased to 592 of which 13 had deficiencies over $250,000. Five are awaiting legal action, one is being held pending the outcome of an investigation and the remaining seven are being held for further information and analysis. The total monetary deficiency noted in these 13 audits is $19,494,642, while the combined total for all open ED audits as of September 30, 1980, exceeds $48 million.

A major result of audit resolution is the amount of funds recovered. Of the 1,247 audit reports resolved during the period, 471 contained findings involving monetary deficiencies. The following information summarizes action concerning the resolution of the 471 audit reports containing monetary deficiencies for the six month period:

deficiencies for the six month period:

- Total costs questioned by auditors.....$17,050,552
- Costs sustained by Program Managers.....$11,487,694
- Additional disallowance identified during program reviews triggered by these audits..... 1,498,631
- Total potential recoveries.....$12,986,325

Of the total $12,986,325 marked for recovery by ED, the following actions were taken:

- Amount collected by the time of final resolution.....$ 1,873,626
- Accounts receivable established by ED's Division of Financial Management - (Note: A receivable account is established even though an auditee may subsequently appeal the Department's findings.)..... 7,685,606
- Offset against the auditee's Departmental Federal Assistance Financing Systems account..... 2,310,404
- Auditee required to take steps to reimburse the student financial assistance program account for costs determined ineligible..... 1,116,689
- Total $12,986,325

Education Appeals Board

The Education Appeals Board represents the Secretary in hearing appeals by State and local government entities concerning decisions reached by program officials on audit findings. Appendix 4 lists the 31 audit-related cases pending before the Board. A summary of these cases is provided below:

Education Appeals Board Cases

Programs	Cases Pending	Amount Sought For Recovery by ED
Title I - Elementary and Secondary Education	27	$52,092,857
Non-Title I	4	1,177,553
	31	$53,270,410

An aging of cases before the Board shows that the audit reports pending Board decisions are:

Over five years old	4
Four to five years old	6
Three to four years old	9
Two to three years old	6
One to two years old	2
Less than one year old	4
	31

The oldest is dated July 1970; the largest is the California appeal for $28.7 million on the audit dated October 1979; and the smallest is Washington State for $25,460 on the audit dated November 1979.

In addition to the 31 open cases, the Board has, since 1975, rendered final decisions on 29 other cases and supported the return of $4,427,227 to the U. S. Government. Of this amount more than $1.7 million has actually been collected.

E. SIGNIFICANT PROBLEMS

The following is a discussion of significant problems affecting the Office of Inspector General:

Resolution of Old Audits

The resolution of old audits continues to be a major problem for the Department. As noted above, the Department began operations with a significant backlog of unresolved audits over six months old and this backlog has increased. In addition, recent regulations are impacting heavily on the total number of audits requiring resolution and may increase the number of unresolved audit findings:

- Basic Education Opportunity Grant regulations mandating biennial audits of participating institutions became effective on February 28, 1979. The universe of these participants is approximately 5,500 and the initial influx of audits is expected shortly after December 31, 1980;
- Guaranteed Student Loan Program regulations mandating biennial audits became effective on July 1, 1980, and will impact on a universe of approximately 7,000 participants. In this case, the influx of audits is not expected until sometime after June 30, 1981; and

- o The implementation of Office of Management and Budget (OMB) Circular A-102, Attachment P, which provides for independent audits of State and local governments receiving Federal Grants-in-Aid, is expected to further increase the number of audit reports coming into the Department. The audit universe affected by this requirement includes some 16,000 local and special school districts which must be audited biennially. An influx of audits has already begun in some States which are optionally conducting annual audits.

The OIG shares the concerns expressed by Congress over the resolution process and has expressed our concerns to Departmental management. The OIG will continue to monitor activities by ED management officials to reduce the backlog of unresolved audits in the Department. In addition, the OIG will actively work with ED officials to improve the resolution process.

Quality Reviews of the Work of Non-Federal Audit Organizations

The regulations mentioned above will also have a major impact on the workload of the OIG. Section 4(b)(3) of the Inspector General Act of 1978 requires that we assure that any work performed by non-Federal auditors complies with the standards established by the Comptroller General for audits of Governmental Organizations, Programs, Activities, and Functions. At our current staffing level, it is unlikely that we will be able to fully comply with this requirement of the Act. We will endeavor to seek ways and means through which we can meet this mandate.

F. OTHER ACTIVITIES

The following are several activities which OA staff have been involved in during the reporting period.

General Accounting Office Reports

Since April 1, 1980, the General Accounting Office issued 19 reports, including five draft reports, two letter reports, and twelve final reports.

With the exception of one letter report, all others have been resolved and, where appropriate, are being tracked to ensure that corrective actions are taken. The remaining letter report is currently being acted upon by the Department.

Joint Efforts to Strengthen Controls Over the Use of Consulting Services

In July 1980, OMB issued a directive requiring all government agencies to develop improved management controls over consulting services and other procurements. The OMB directive also required Inspectors General to evaluate their agency's plan and monitor its implementation.

In response to this requirement, OIG evaluated the Department's plan for establishing management controls over consulting services. This plan and OIG's companion evaluation were submitted to OMB on August 1, 1980. OIG will monitor this activity through FY 1981.

Participation in the Government-wide Task Force on Property Management

The Inspectors General from a number of Federal agencies recently participated in a task force evaluating compliance with OMB Bulletin 80-6. This bulletin placed a moratorium on the purchase of new office furniture as of February 1980. OIG audit staff participated in this effort and reported the results to the Inspector General of the General Services Administration.

SECTION III

INVESTIGATION ACTIVITIES

A. INTRODUCTION

This section of the report provides an overview of investigation activities during this reporting period. It includes the status of operational progress, statistical data pertaining to investigations, and the results of investigations.

A number of interim policies and procedures have been developed which will guide our efforts. These include: an Investigative Handbook, a Departmental Personnel Security Manual, a Departmental Security Manual, and a manual for OIG's Secretarial Protection Program.

An automated case tracking system was instituted to provide information about the status of all investigation cases nationwide.

B. INVESTIGATION STATISTICS

As of September 30, 1980, OI was carrying 153 open cases in its workload portfolio. This aggregate caseload was analyzed in order to identify:

- Program areas generating the greatest number of investigation cases;
- Patterns of alleged violations in ED programs; and
- Sources of allegations.

This information is summarized in three tables which follow. It should be noted that most investigative cases contain allegations which concern multiple programs. An investigation of

Title IV student financial assistance programs at a given college, for instance, might encompass analysis of campus-based programs which rely heavily on institutional administrative capability (National Direct Student Loans, Supplemental Education Opportunity Grants), as well as other assistance programs in which the school's level of direct involvement is less (Guaranteed Student Loans).

Case Involvement by Program

Program	Cases Involving the Program	Percentage of 153 Open Cases[1/]
Title IV-Student Financial Assistance:		
Basic Education Opportunity Grant	84	55
Guaranteed Student Loan	48	31
National Direct Student Loan	39	25
Supplemental Education Opportunity Grant	35	23
College Work Study	19	12
TRIO[2/]	5	3
Title III-Strengthening Developing Institutions	5	3
Other	17	11

1/ These figures represent the share of cases in which the particular program was involved.

2/ TRIO Programs include: Special Services for Disadvantaged Students, Talent Search, Upward Bound, and Educational Opportunity Centers.

The high number of violations in Title IV-Student Financial Assistance Programs is attributable in part to the fact that the OIG received 73 cases from the former Division of Compliance, Bureau of Student Financial Assistance. Compliance cases were solely concerned with Title IV Programs.

The open cases were also analyzed in terms of alleged statutory violations. Since most of the cases involve more than one alleged violation, they are presented both as number of incidents and as percentage of all alleged violations in open cases.

Alleged Statutory Violations

Statutory Violations	Description	No. of Incidents	Percentage
18 USC 1001	False Statements	98	33.2
18 USC 1341	Mail Fraud	39	13.4
18 USC 541	Embezzlement	44	14.7
18 USC 287	Fraudulent Claims	38	13.0
18 USC 371	Conspiracy	18	6.2
20 USC 1087	Student Assistance Fraud	17	5.8
Other Statutory Violations		40	13.7
			100.0%

An analysis was also done to determine the sources of the allegations which became open OIG cases.

Sources of Allegations

Source	Percentage
Intradepartmental Referrals	30.0
Other Federal Agencies	18.2
School Financial Aid Administrators	10.0
Citizen Complaints	8.9
School Employee Disclosures	7.6
State Agency Referrals	7.1
Audit/Program Review Referrals	5.9
Guaranteed Student Loan Lenders	2.9
Students	4.1
Other	5.3
	100.0%

OIG investigators are pursuing a number of ongoing investigations which include:

- Assisting in the defense of an important suit against the Department involving precedent-setting issues vital to the Guaranteed Student Loan Program. We are also assisting the Department of Justice attorneys in a related countersuit; and

- Assisting Department of Justice attorneys in court proceedings involving 43 institutions formerly owned by a large multinational corporation. At least $20 million in recoveries to ED are at issue in the litigation.

HHS is currently investigating a number of cases involving education programs. They are in various stages of progression making it impractical to transfer case responsibility, e.g., Grand Juries in session, trials underway, etc. In the interest of efficiency and continuity, it was agreed that these cases

would be retained by HHS until completion. In addition, we are also monitoring 13 cases involving education programs under investigation by the Federal Bureau of Investigation and three cases being investigated by other Federal and State authorities (Internal Revenue Service, District Attorney and County Attorney).

C. INVESTIGATIVE RESULTS

OI accomplishments include matters referred to prosecutive authorities as well as monetary savings resulting from investigations. They are summarized below:

Matters Referred to Prosecutive Authorities

During the period of this report, OIG presented 16 cases to U.S. Attorneys for prosecutive consideration. Nine were either accepted or are still awaiting a decision. Seven were declined. In addition, OIG cases resulted in five indictments, one conviction and one judgment. Some of these resulted from cases referred to the Department of Justice before April 1980. Highlights of these cases are presented below:

- One case pertained to the conviction of a student who pled guilty to charges of bank fraud. The investigation disclosed that the subject had provided false information to obtain a $10,000 loan under the Health Education Assistance Program. The case resulted in the first conviction ever obtained of a student in this program. The individual was sentenced to prison for one year but in lieu of incarceration, the individual was given a three-year probation. The Immigration and Naturalization Service subsequently deported the individual to his native country;

- A Federal Grand Jury returned a six-count indictment against one individual for falsifying applications for student aid funds;

- A $1.2 million judgment was obtained as a result of an 18-month investigation of two west coast proprietary schools. The judge ruled that ED was entitled to recover $556,788, which was double the damages sustained for the owner's misappropriation of the school's student aid funds. An additional $684,000 was recovered based upon the aggregate of 342 false claims, each of which involved a forfeiture of $2,000; and

- A Federal Grand Jury returned an eight-count indictment against a husband and wife. She was working in the financial aid office of an educational institution and he was applying for financial aid to attend the same school. The husband understated his income and his wife approved the awards. The wife was also indicted on two of the eight counts for misrepresenting her own income and marital status to obtain financial aid for her own education.

Monetary Savings

During the reporting period, $1,221,335 was identified as Federal money which was improperly awarded or spent. Examples are excess student aid awards, student refunds not returned, misuse of Federal funds, and misspent grant or contract funds. Of the amount identified, $585,388 has been recovered or negotiated for repayment. Additionally, $964,271 was saved, representing dollars that were authorized for payment to a grantee but payment was halted as a result of improprieties identified by OI.

SECTION IV

OTHER MATTERS

A. REVIEW OF LEGISLATION AND REGULATIONS

In accordance with Section 4(a)(2) of the Inspector General Act of 1978, (P.L. 95-452), the OIG is required to review existing and proposed legislation and regulations relating to Departmental programs and operations. The OIG is required to make recommendations concerning the impact of these rules on the Department's programs and operations, and on the Department's ability to prevent and detect fraud and abuse in its activities.

In review of proposed legislation and regulations initiated by the Department, we have been able to comment at an early enough stage that our suggestions have been considered before initial release of the proposal. We are working with the Office of General Counsel, the Assistant Secretary for Legislation, and the Assistant Secretary for Planning and Budget to continue this procedure.

During the period from May 4, 1980, through September 30, 1980, we reviewed and commented on 15 proposed new legislative bills or revisions to existing bills and nine new regulations or revisions to existing regulations.

B. NO UNRESOLVED SIGNIFICANT RECOMMENDATIONS DISCLOSED IN PRIOR REPORTS

Section 5(a)(3) of the Act requires the Inspector General to identify each significant recommendation described in previous semiannual reports on which corrective action has not been completed.

Since this is the first ED-OIG semiannual report, there are no significant recommendations included in previous semiannual reports which are unresolved.

C. NO INSTANCES WHERE REQUESTED INFORMATION WAS REFUSED

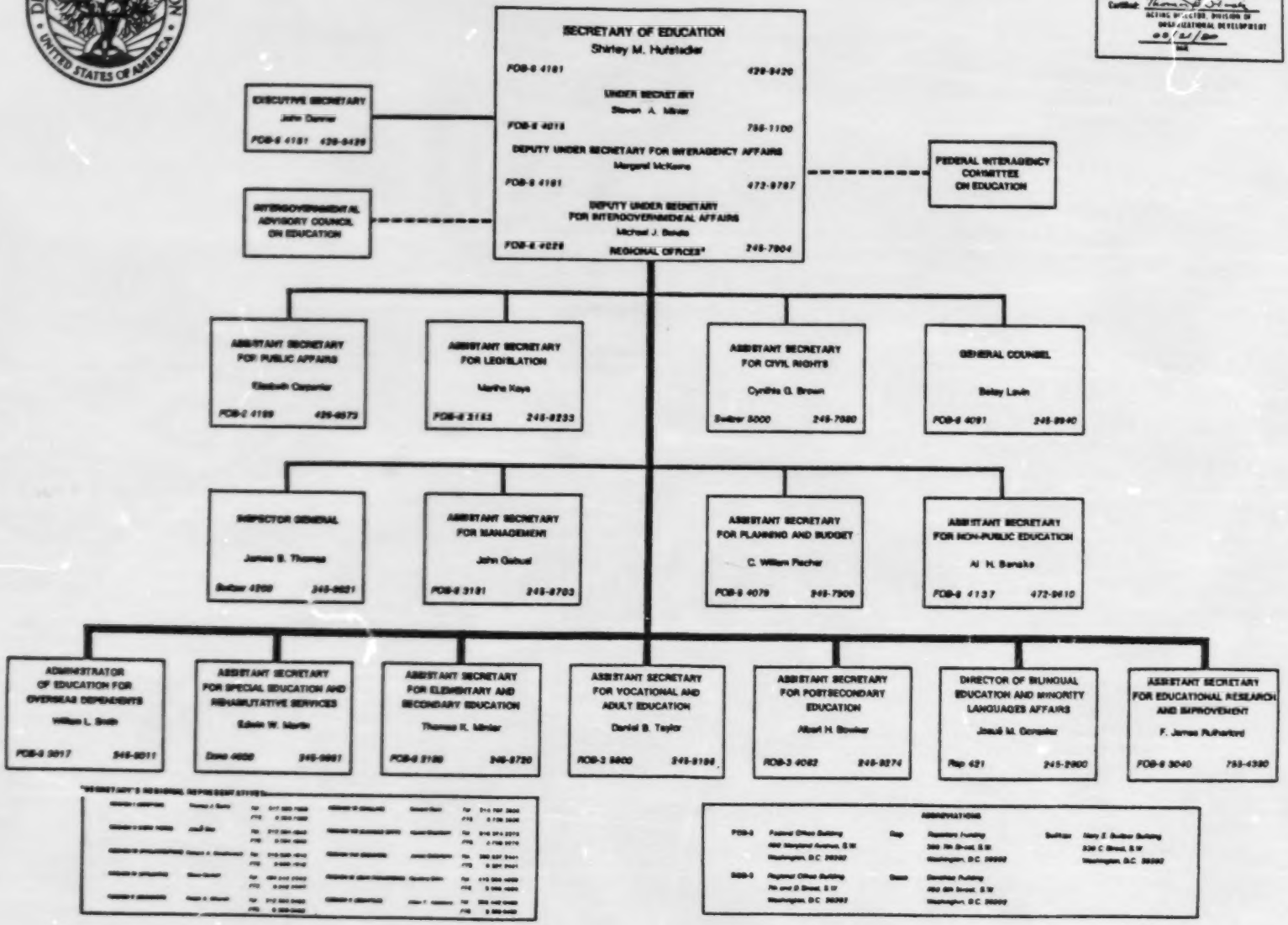
Section 5(a)(5) of the Act requires the Inspector General to include in the semiannual report a summary of each report made to the Secretary whenever information or assistance is unreasonably refused or not provided.

The OIG has received support from top Departmental management and has not been unreasonably refused or denied information or assistance requested.

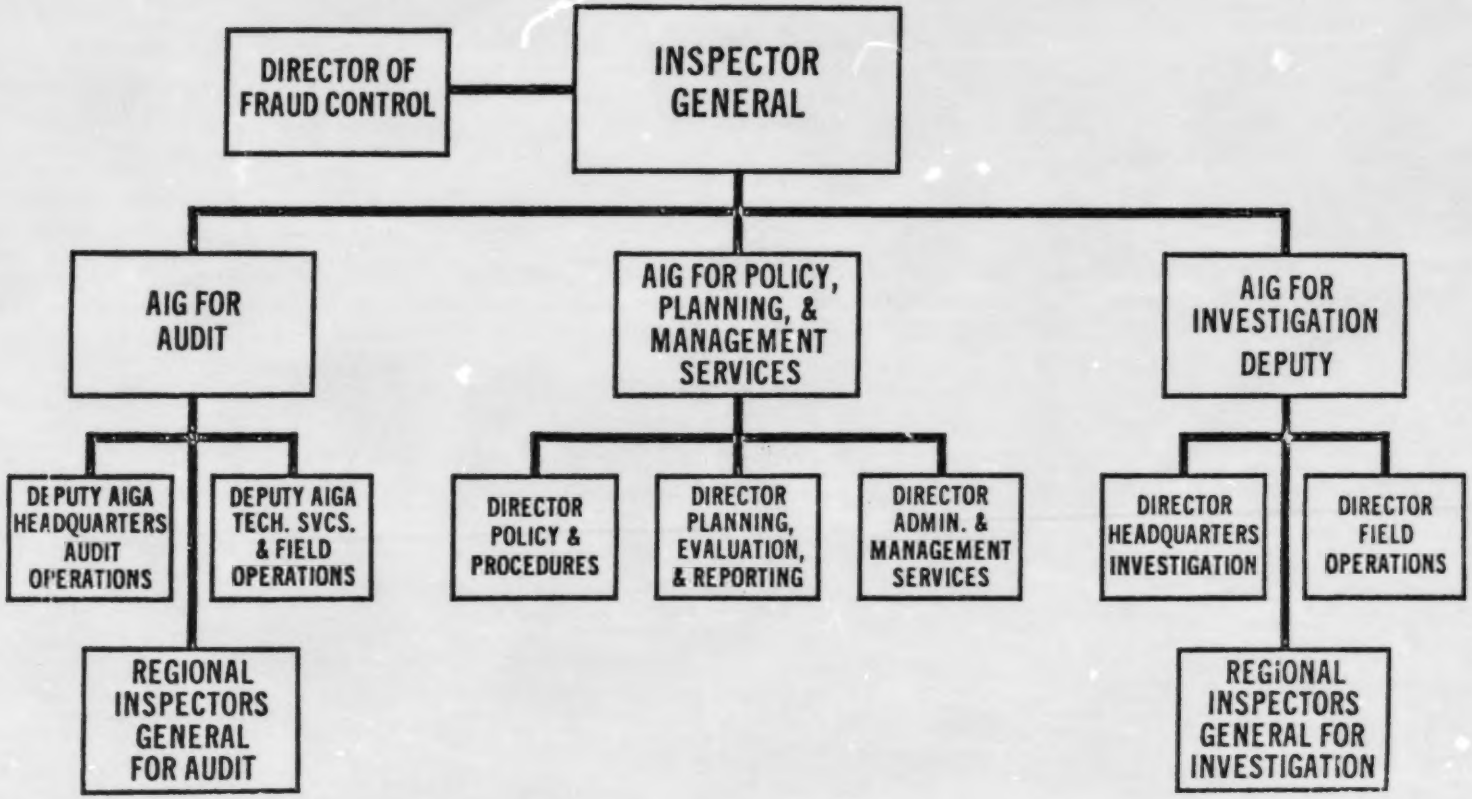
ABBREVIATIONS

ED	Department of Education
HHS	Department of Health and Human Services
NIE	National Institute of Education
OA	Office of Audit
OERI	Office of Educational Research and Improvement
OESE	Office of Elementary and Secondary Education
OI	Office of Investigation
OIG	Office of Inspector General, ED
OMB	Office of Management and Budget
OM-DGP	Office of Management, Division of Grants and Procurement
OPE	Office of Postsecondary Education
OSERS	Office of Special Education and Rehabilitative Services
OVAE	Office of Vocational and Adult Education
RSA	Rehabilitation Services Administration
VR	Vocational Rehabilitation

DEPARTMENT OF EDUCATION



OFFICE OF INSPECTOR GENERAL


DIRECTOR OF FRAUD CONTROL
INSPECTOR GENERAL
AIG FOR AUDIT
AIG FOR POLICY, PLANNING, & MANAGEMENT SERVICES
AIG FOR INVESTIGATION DEPUTY
DEPUTY AIGA HEADQUARTERS AUDIT OPERATIONS
DEPUTY AIGA TECH. SVCS. & FIELD OPERATIONS
DIRECTOR POLICY & PROCEDURES
DIRECTOR PLANNING, EVALUATION, & REPORTING
DIRECTOR ADMIN. & MANAGEMENT SERVICES
DIRECTOR HEADQUARTERS INVESTIGATION
DIRECTOR FIELD OPERATIONS
REGIONAL INSPECTORS GENERAL FOR AUDIT
REGIONAL INSPECTORS GENERAL FOR INVESTIGATION

ED AUDITS ISSUED

4/1/80 - 9/30/80

Section 5(a)(6) of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 89 audit reports were completed, 57 with audit findings and 32 without audit findings. These reports are listed below.

A. Reports With Audit Findings

Number	Auditee and ED Action Office	Date Issued
01-00104	State of Rhode Island, Voc Ed, RI (OVAE)	09/22/80
01-00105	Rhode Island Dept of Education, RI (OESE)	04/17/80
01-00555	New Hampshire Dept of Education, NH (RSA)	09/24/80
01-01201	State of Connecticut, CT (OPE)	07/24/80
01-01204	Andover Junior College, MA (OPE)	05/23/80
01-01301	Boston University, MA (OPE)	06/23/80
01-01350	Vermont Technical College, VT (OPE)	08/25/80
01-01353	Wildred Academy of Hair & Beauty Culture CT (OPE)	05/23/80
01-03302	PMC Associates, Inc., MA (OM-DGP)	09/19/80
02-00551	Puerto Rico Dept of Social Service, PR, (RSA)	08/07/80
02-00559	Puerto Rico Dept of Social Service, PR, (RSA)	08/25/80
02-01202	Business Academy of West Chester, Inc., NY (OPE)	05/12/80
02-01459	The NY Inst for the ED of the Blind, NY (OM-DGP)	05/06/80
03-00001	State Dept of Ed, Wyoming Co., WV (OESE)	08/12/80
03-00002	State Superintendent of Schools, MD (OESE)	07/31/80
03-00007	State Dept of Ed - Commonwealth of VA (OESE)	09/22/80
03-03323	George Washington University, D.C. (NIE)	04/29/80
04-00103	Georgia State Board of Ed, GA (OVAE)	09/18/80
04-01012	Allen University, SC (OPE)	09/26/80
04-01303	Wachovia Services, Inc., NC (OPE)	06/05/80
04-03332	Auburn University at Montgomery, AL (OM-DGP)	06/23/80
04-03349	University of Tennessee, TN (OM-DGP)	08/13/80
04-03363	George Peabody College, TN (OM-DGP)	08/28/80
04-07005	Shaw University, NC (OPE)	08/15/80
05-00001	Illinois Office of Education, IL (OESE)	05/02/80
05-01003	Greenville College, IL (OM-DGP)	05/02/80

Number	Auditee and ED Action Office	Date Issued
05-01004	McKendree College, IL (OM-DGP)	07/17/80
05-01037	The Ohio State University, Research Foundation (NIE)	07/02/80
05-01467	Michigan Department of Education, MI (OM-DGP)	04/30/80
05-03325	Ohio State University, OH (NIE)	05/06/80
05-03352	Walker & Associates, Inc., MN (OM-DGP)	08/14/80
05-03358	National College of Education, IL (OM-DGP)	07/14/80
05-03417	Michigan Department of Education, MI (OM-DGP)	09/05/80
05-07000	University of Wisconsin, Eau Claire, WI (OM-DGP)	05/15/80
05-07006	Northern Illinois University, IL (OM-DGP)	06/02/80
05-07010	Quincy College, IL (OM-DGP)	04/14/80
05-07015	Western Illinois University, IL (OM-DGP)	04/25/80
06-00101	Louisiana Department of Education, LA (OVAE)	09/23/80
06-01300	Department of Education, OK (OPE)	05/16/80
06-03312	SW Educational Dev. Lab, TX (NIE)	04/03/80
06-03322	Texas Education Agency, TX (OM-DGP)	04/15/80
06-03385	University of Oklahoma, OK (OM-DGP)	05/12/80
06-03386	University of Oklahoma, OK (OM-DGP)	05/12/80
06-07006	Bishop College, TX (OPE)	08/29/80
07-01208	Iowa State University of Sci & Tech, IA (OPE)	05/28/80
07-03333	University of Kansas, KS (OM-DGP)	05/14/80
08-03364	University of Utah, UT (OM-DGP)	07/14/80
08-07001	Montana State University, MT (OM-DGP)	07/17/80
08-07006	University of Utah, UT (OM-DGP)	07/17/80
09-00106	State of Hawaii, Vocational Education, HI (OVAE)	04/30/80
09-01455	Southwestern Reg. Deaf-Blind Center, CA (OM-DGP)	05/27/80
09-03459	Far West Lab for ED Research & Dev., CA (OM-DGP)	09/04/80
09-03472	Center for Independent Living, Inc., CA (OM-DGP)	09/16/80
10-00107	Division of Vocational Education, ID (OVAE)	09/04/80
10-01005	University of Washington, WA (OM-DGP)	09/11/80
10-01452	United Indians of All Tribes Foundation, WA (OM-DGP)	09/12/80
10-03022	Office of Student Financial Assistance, Seattle Regional Office (OPE)	09/10/80

B. Reports Without Audit Findings

Number	Auditee and ED Action Office	Date Issued
01-01458	Perkins School for the Blind, MA (OPE)	05/13/80
02-00000	Franklin Township Board of Education, NJ (OESE)	06/27/80
02-07000	Research Foundation of State University of New York, NY (OM-DGP)	06/09/80
02-07001	Rockefeller University, NY (NIE)	07/22/80
03-01000	District of Columbia Youth Orchestra, D.C. (OERI)	06/02/80
03-03322	George Washington University, D.C. (OM-DGP)	04/07/80
03-03327	George Washington University, D.C. (OM-DGP)	04/16/80
03-03351	Conference of Executives of American Schools for the Deaf, Washington, D.C. (OM-DGP)	07/11/80
03-07010	George Washington University, D.C. (OM-DGP)	05/13/80
05-00106	Illinois State Board of Education, IL (OM-DGP)	05/07/80
05-01043	University of Minnesota, MN (OM-DGP)	06/27/80
05-01303	First National Bank of Minnesota, MN (OPE)	05/13/80
05-01706	Ohio University, OH (OM-DGP)	07/01/80
05-01707	Illinois State University, IL (OM-DGP)	05/15/80
05-01709	Bradley University, IL (OM-DGP)	07/09/80
05-07014	University of Minnesota, MN (OM-DGP)	04/08/80
07-01464	University of Nebraska, Lincoln, NB (OM-DGP)	09/24/80
07-03321	Cemrel Incorporated, MO (OM-DGP)	04/03/80
07-03332	University of Kansas, KS (OM-DGP)	07/09/80
08-00318	Mt. Plains Regional Center for Services to Handicapped Children, UT (OM-DGP)	04/14/80
09-01458	Alum Rock School District, CA (NIE)	06/10/80
09-01461	National Indian Trng & Research Center, AZ (OM-DGP)	09/25/80
09-03389	Mesa Public Schools, AZ (OM-DGP)	06/06/80
09-07009	University of CA, Berkeley, CA (OM-DGP)	06/23/80
09-07014	University of CA, Berkeley, CA (OM-DGP)	07/03/80
09-07024	University of CA, Berkeley, CA (OM-DGP)	05/30/80
10-00105	Oregon Department of Education, OR (OM-DGP)	06/16/80
10-00106	State of Washington, OSPI, WA (OM-DGP)	05/02/80
10-01451	NW Regional Education Laboratory, OR (OM-DGP)	05/29/80
10-03302	Nero & Associates, Inc., OR (OM-DGP)	05/19/80
10-03303	Nero & Associates, Inc., OR (OM-DGP)	04/30/80
10-07000	University of Washington, Seattle, WA (OM-DGP)	09/24/80

LISTING OF AUDITS BEFORE THE EDUCATION APPEALS BOARD (9/30/80)

State	Program	Number	Date Of Audit	Appeal Date	Amount Sought For Recovery
Arizona	Title I	09-10003	08-17-70	10-14-77	$ 762,023
Arizona	Title I	09-60006	06-24-76	11-30-77	230,723
California	Title I	09-00002	10-05-79	02-01-80	28,682,142
California	Title I	09-60002	09-24-76	11-29-79	2,184,496
California	Title I	09-60451	01-30-76	09-12-79	967,128
Colorado	Title I	08-80004	12-29-77	07-06-78	44,837
Dist. of Col.	Title I	03-90000	07-31-79	01-02-80	585,734
Florida	Title I	04-70001	11-05-76	11-22-78	618,151
Florida	Library	04-80104	02-27-78	02-15-79	57,819
Hawaii	Title I	09-80002	10-28-77	01-12-78	398,495
Hawaii	Title I	09-90000	01-10-79	05-15-79	1,711,123
Illinois	Title I	05-00000	11-30-79	05-29-80	3,335,680
Indiana	Title I	05-70000	10-15-76	12-14-77	1,635,958
Indiana	Title I	05-80002	05-31-78	07-31-79	240,493
Kentucky	Title I	04-70005	10-29-76	12-30-76	704,237
Minnesota	Title I	07-10013	07-15-70	03-27-73	207,900
Nebraska	Handicapped	07-70002	12-06-76	01-18-78	94,274
Nevada	Title I	09-00003	02-26-80	05-23-80	640,699
Nevada	Title I	09-80001	05-05-78	01-27-79	700,695
Nevada	Title I	09-80102	09-12-78	06-29-79	746,010
New Jersey	Title I	GAO-B-164031	04-07-71	06-26-74	637,098
New Mexico	Title I	06-70000	09-23-76	11-15-77	639,042
North Dakota	Title I	08-70037	07-27-77	10-20-78	117,030
Ohio	Library	05-60107	08-27-76	12-15-77	1,000,000
Oklahoma	Title I	06-60001	03-09-76	10-13-77	598,250
Oregon	Title I	10-70003	09-07-77	06-22-79	148,555
Pennsylvania	Title I	03-50002	01-16-75	02-15-77	4,636,118
South Carolina	Title I	04-70012	01-13-77	12-05-78	469,423
Texas	Title I	06-70004	11-18-76	08-10-78	350,151
Washington	Voc. Ed.	10-00600	11-07-79	02-25-80	25,460
Washington	Title I	10-70001	12-06-76	02-05-79	100,666
Total Amount Under Appeal					$53,270,410

HOTLINE COMPLAINTS

Program Office	Number	Percent of Total	Initial Referrals to: OIG	Initial Referrals to: Program Office	Closed Cases	Open Cases
Elementary & Secondary Education	7	15%	2	5	1	6
Postsecondary Education	13	29	7	6	3	10
Vocational & Adult Education	1	2	1	-	-	1
Special Education & Rehabilitative Services	6	14	2	4	1	5
Educational Research & Improvement	2	4	1	1	-	2
Bilingual Education & Minority Languages Affairs	2	4	1	1	1	1
Administration (internal cases)	9	19	5	3	1	8
Non-Educational	6	13	4	-	5	1
Subtotal			23	20		
Total	46[1]	100%		43[2]	12	34[3]

1/ Of the total 46:
31 from General Accounting Office
7 from ED employees
8 from the public

2/ Three complaints had not been referred as of 9/30/80.

3/ Open cases are those under analysis by ED program office or OIG after initial referral.